THE MORTGAGE EVIL.[1]

IT is in some respects fortunate, and in others unfortunate, that nearly all economic questions become involved in politics. That such questions are on this account more generally considered and more carefully studied is apparent, and that they are for the same reason subjected to misrepresentation and fallacious argument is equally certain. Whenever a well-grounded economic proposition is advanced as a political argument, the party against which it militates usually meets it on every possible line of defence, so that the sum of their reasoning acquires a resemblance to the answer in the celebrated kettle case. The common features of the reply are these: 1. The facts alleged do not exist; 2. The condition resulting from the facts is not injurious but beneficial; 3. The injurious results are not due to the acts or principles of the party in power. Not infrequently the three lines of defence are all followed in one article, overwhelming, bewildering or amusing the reader according to his knowledge of the subject and his faculty of logical perception. The extent and economic significance of Western mortgages — particularly farm mortgages — is one of these questions which has become of political importance on account of its connection with the tariff question, and which has already advanced into all three of the stages of controversy mentioned. It is the object of this paper to discuss the extent and effect of mortgage indebtedness in parts of the West and to endeavor to point out some features of it which have hitherto been entirely overlooked or barely noticed.

In the collection of facts the principal sources of information are of necessity the bureaus of statistics that have been in operation in several of the Western states for some years past. One

[1] [*Cf.* article on Farm Mortgages in POLITICAL SCIENCE QUARTERLY IV, 3 (September, 1889), p. 433. EDS.]

of the first acts of the Indiana bureau after its organization in 1879 was to request of the county officials statements of the numbers and amounts of mortgages recorded and satisfied in each year from 1872 to date. The returns were not full. Twenty-nine of the ninety-two counties responded in time for the first annual report. In the following year nine more counties were heard from, and the next report included them. The figures are as follows for private real-estate mortgages, exclusive of school-fund mortgages in which the mortgagee is the state:

TABLE I.

Year ending	Record of 29 counties. (Report of 1879, p. 334.)			Record of 38 counties. (Report of 1880, p. 227.)		
	Mortgages.	Satisfactions.	Increase.	Mortgages.	Satisfactions.	Increase.
June 1, 1873. .	$6,522,244	$3,162,936	$3,359,308	$7,165,791	$3,606,496	$3,559,295
" 1874. .	7,254,648	4,025,402	3,229,246	8,032,515	4,504,922	3,527,593
" 1875. .	8,620,521	4,180,230	4,440,291	9,659,391	4,920,440	4,738,951
" 1876. .	7,656,158	4,472,807	3,183,351	8,793,096	5,331,587	3,461,509
" 1877. .	7,595,147	3,577,201	4,017,946	8,749,053	4,390,030	4,359,023
" 1878. .	6,216,946	3,184,253	3,022,693	7,423,253	3,807,168	3,616,085
" 1879[1] .	3,342,107	2,095,970	1,246,137	4,478,907	2,802,105	1,676,802
	47,207,771	24,698,799	22,508,972	54,302,006	29,362,748	24,939,258

No attempt appears to have been made to continue this record for the next two years, but from 1882 there has been an annual report, the aggregates of the returns being as follows:

TABLE II.

Record of Private Real-Estate Mortgages (exclusive of School Fund) as reported, 1882–1888.

	Mortgages.	Satisfactions.
Year ending June 1, 1882	$8,623,459	$4,749,236
" " " 1883	18,457,942	6,816,903
" " " 1884	78,224,311	3,693,439
" " " 1885	6,532,496	4,292,907
" " " 1886	5,661,032	3,074,920
" " " 1887	4,617,659	2,545,480
" " " 1888	4,604,999	2,786,399

[1] For five months only, in part of the counties.

A glance at these reports shows that either there are inaccuracies in some of them or there is a most extraordinary variation in the mortgage business, and careful inspection reveals the sources of error. Take for example the startling figures for 1884. On examination of the detailed statement by counties, it will be observed that in each of the three counties of Clark, Jefferson and Scott the mortgages recorded exceed $16,000,000. These three counties are contiguous and are crossed by a branch of the O. & M. railroad, which in that year filed its refunding mortgage of $16,000,000 in these counties, and this amount was erroneously included by the county officials in their reports. A like error occurs in Delaware county on account of the record of the general consolidated mortgage of the C. C. C. & I. road, amounting to $12,000,000. A third instance appears in Fulton county, where the T. H. & L. railroad extended its line in 1884 and recorded its first mortgage of $5,000,000. Hence $65,000,000 of the increase is easily disposed of. The second source of error is the inclusion in the tables of a number of counties from which only one side of the account (almost invariably the mortgages recorded) is reported, and of course these cannot be retained in an estimate of the relative amounts of recorded and satisfied mortgages. It must be noted also that the number of counties whose reports are included varies from year to year. Eliminating all these vitiating factors from the reports, the record for these seven years stands as follows:

TABLE III.

Corrected Mortgage Record, 1882–1888.

	No. of counties reporting.	Mortgages.	Satisfactions.	Increase.	Estimated increase for entire state.
Year ending June 1, 1882	26	$6,407,812	$3,749,236	$2,658,576	$9,407,276
" " " 1883	42	10,220,721	6,816,903	3,403,818	7,455,956
" " " 1884	33	6,565,696	3,693,439	2,872,257	8,007,496
" " " 1885	31	6,038,549	4,292,907	1,745,642	5,180,612
" " " 1886	26	5,016,128	3,074,920	1,941,208	6,868,904
" " " 1887	23	3,963,679	2,545,480	1,418,199	5,672,812
" " " 1888	21	3,672,872	2,786,399	886,473	3,883,596
					$46,476,652

In the report for 1880, covering the seven years from 1872, the errors noted above were avoided, so that we have reliable bases for calculation in the reports for 14 years, as shown in Tables I and III. The next question is: On what principle should the estimate for the entire state be made? From inspection of the detailed statements the following facts are deduced: 1. Except in rare instances the mortgages recorded exceed the satisfactions in every county in every year. 2. The increase of mortgages is always greatest in counties whose real-estate valuation is greatest, but not in any fixed proportion. 3. The counties reporting are as a rule those in which the real-estate valuation is below the average. The important counties of Marion, Tippecanoe, Vigo and Vanderburgh do not appear at all, and other wealthy counties only occasionally. The reason of this is that the law does not compel reports and the county officials who comply with it are naturally those in whose counties the business is lightest and most easily summarized.

From these facts it is evident that an estimate by real-estate valuation would be too high, and also that an estimate by the number of counties included, averaging each the same, would be too low. The difference in the results obtained by the two methods is much greater than might be expected. For example, the thirty-eight counties reported in 1880 represent only $153,809,208 out of a total real-estate valuation of $575,441,053, according to the appraisement of the state board of equalization. That is to say, the report shows the returns for forty-one per cent of the counties, but only twenty-six per cent of the real-estate valuation. As it is desirable to keep within the limits of certainty, I have used the more conservative method, and the estimates for the entire state given in Table I present the results of a computation by proportion of the counties reporting to the whole number of counties. Possibly, too, this is the fairer method; because, as is frequently objected to statistics of this character, there are some satisfactions of mortgages, and more partial payments, that do not appear of record. This objection, however, is not so serious as it might seem at first thought; for the proportion of such cases is small, and on account of fore-

closures, new loans, *etc.* there is a constant "clearing up" of titles, in which mortgages really satisfied in past years are made to appear as satisfied in current ones. The average therefore is fairly accurate.

On this basis the increase of mortgages in the first period of seven years (Table I) for the entire state was $60,379,232; and during the second period of seven years (Table III), $46,476,652; or a total in fourteen years of $106,855,884; and this amount is an absolutely safe minimum. What relation it bears to the total existing volume of real-estate mortgages can only be conjectured. Perhaps it is one-half — in my opinion less — but possibly more. There are no available means by which the question can be determined. It is certain that this much exists and that, at the rate of seven per cent, the people of Indiana are annually paying $7,480,000 of interest on this indebtedness.

To reach an appreciation of the significance of this growth of mortgage indebtedness another factor must be taken into consideration, and it is one to which statisticians have paid very little attention. It is scarcely more important to know what proportion of mortgages were satisfied than it is to know how they were satisfied; because under the laws a mortgage is satisfied by foreclosure and sale of the property as well as by the payment of the debt. Of course the volume of debt is reduced in both cases; but the extent of the reduction by payment is proportional to the prosperity of the country, and the extent of the reduction by foreclosure is proportional to its financial embarrassment. Payment means that enough wealth has been added by the production of the land or from external sources to extinguish the debt. Foreclosure means that the margin of value in the land above the debt has been swallowed up by the debt and that the debtor is so much the less able to meet his unsecured liabilities. Beyond this influence towards general embarrassment in business, there is perhaps no serious detriment to the state if the mortgagee be a resident; but, considering the total volume of foreclosure, where the mortgagees are non-residents it is apparent that the money brought in by

loans has in some way disappeared, and that the financial parasite which before sucked the blood is now swallowing the flesh. Unquestionably the payment of all the mortgage indebtedness of the state would be a public benefit, and the foreclosure of all existing mortgages would be an immeasurable calamity.

In the utter absence of ordinary statistical information on the subject, it is impossible to determine conclusively the proportion of satisfactions by foreclosure to those by payment, but the following facts will aid in attaining a correct conception of it. Prior to 1879 a very considerable part of the foreclosing in Indiana by non-resident mortgagees was done in the United States courts, because it was in some respects more convenient, and because those courts were believed to be less subject to local bias on controverted points, if any arose. I have had made a full abstract of the foreclosure decrees on the judgment dockets of those courts, taken by thirteen foreign companies engaged in the loan business during the years 1878, 1879, 1880, to ascertain the actual amount of foreclosure by them. The result is as follows:

TABLE IV.

Foreclosures in United States Courts for Indiana.

Company.	1878.	1879.	1880.
Northwestern Mutual Life Ins. Co.	$135,537.04	$69,169.39	$46,441.68
George P. Bissell, Trustee	120,090.71	60,137.73	182,962.87
Fitzgerald, Trustee	39,324.31	13,149.93	2,505.40
Providence Ins. Co.	9,296.00	...	...
Charter Oak Ins. Co.	7,771.66	...	...
Traveler's Ins. Co.	35,977.01	76,470.83	49,446.39
Thames Mutual Loan and Trust Co.	6,404.45	11,677.55	3,920.90
Phœnix Mutual Life Ins. Co.	149,742.61	138,154.30	33,883.92
Union Mutual Life Ins. Co.	8,790.02	1,930.25	5,018.71
Jonathan Edwards, Trustee	102,711.68	87,451.89	5,203.90
U. S. Mortgage Co.	80,195.68	...	...
Conn. Mutual Life Ins. Co.	4,530.60	20,476.15	...
Ætna Life Ins. Co.	...	11,970.32	...
Totals	$703,971.80	$490,588.54	$329,283.77

The decrease of foreclosure in 1879 and 1880 here shown was not an absolute decrease, but was due to the transfer of this

class of litigation to the state courts. The forcing of residents of outside counties to come to Indianapolis to defend foreclosure suits became so oppressive that a law was passed by the state legislature (approved March 15, 1879) requiring foreign companies to foreclose in the counties where the mortgaged land was located, on penalty of forfeiting the right to transact business in the state. No new suits were brought thereafter in the United States courts, and the figures for 1879 and 1880 represent only the results of cases theretofore pending. As nearly as I can estimate from the opinions of attorneys representing these companies, less than one-half of their foreclosure on the average was done in the United States courts, the amount varying with different companies. Many attorneys preferred the state courts because the pleadings were less voluminous, the disposal of the cases was more expeditious, and the expense was less. The last-named was the most important consideration, because the mortgagee usually bought in the property for the full amount of judgment and costs and thereby paid the expense of the foreclosure. The thirteen companies named were probably foreclosing at the rate of $1,500,000 per annum at that time; and in my opinion, as well as in that of several attorneys with whom I have consulted, the total volume of foreclosure in the state was at least one-half the total volume of satisfactions, which in that period was about ten millions a year.

A similar conclusion will be reached from another line of facts. On account of the legislation mentioned and on account of losses on foreclosures (which will be explained hereafter), several of these companies have discontinued loaning in this state and have closed up existing business. From the president of one of these, the Phœnix Mutual, I learn that it "loaned a little over a million dollars in Indiana and foreclosed on fifty-three per cent of it." The business of George P. Bissell, Trustee, presents much the same result. Out of 290 loans made, of which only seven are now living, there were 124 foreclosures, that is to say, forty-three per cent of the whole number of mortgages. This, however, does not show the full extent of foreclosure; because in many instances these mortgages were paid by securing new

loans of other companies and remortgaging the same property, so that while the old debt was virtually continued, the foreclosure that ultimately came in part of them does not appear in the preceding statement. I know that the business of these companies was managed as prudently as the average; and I feel safe in asserting that on the average, during the time these two companies were operating in Indiana, at least one-half of all real-estate mortgages made were foreclosed. Of course it must be remembered that the period referred to was one of financial depression, and that in normal years the proportion of foreclosure is much less.

If the people of any Western state may be considered thrifty and judicious, the people of Michigan may, and by the official records their condition appears to be as bad as that of their neighbors in Indiana. In 1887 an attempt was made by the bureau of statistics to ascertain the mortgage debt of the state through personal declarations of the owners of land. This is the best method of ascertaining the amount of existing debt; the only flaw in it being that some persons, considering that the public has no interest in their affairs, refuse to give the information. In consequence the returns are less than the reality; but in the desire to keep within the truth, we accept them as accurate. They show (report of 1888) that the real-estate mortgages of the state amount to $129,229,553, with an annual interest payment of $9,451,851, on a total realty valuation of $686,614,741. Of this amount $64,392,580 is on farms, and the annual interest charge is $4,636,265. The farms mortgaged are 47.4 per cent of all the farms in the state, and the mortgage debt is 46.8 per cent of the assessed value of the farms mortgaged. The number of foreclosures made during the year was 1667, and in only 131 cases were redemptions made, leaving a net loss of 1536 pieces of property by foreclosure in one year. The situation apparently justifies the statement of Commissioner Heath that "a very large proportion of the people seem to be in a financial rut, and are unable to extricate themselves."

In 1888 the Illinois bureau of statistics made an attempt to ascertain the mortgage debt of that state by another method.

A carefully prepared abstract of the mortgage records was made for three years, 1870, 1880, and 1887, in which the amount of each mortgage and the term for which it ran were noted. From these amounts an average term for the whole annual amount of mortgages was calculated, and, on the theory that the average term of mortgages in consecutive years was substantially the same, it was assumed that the total mortgage indebtedness would be equal to the amount of mortgages recorded during the year multiplied by the average term. The plausibility of the method is heightened by the fact that there was no great difference in the average terms of the three years examined. If the amount of mortgages satisfied during each year were exactly equal to the amount recorded, this method would be proper and the result would be approximately correct; but in fact the two sums are not equal. The fallacy involved in the estimate is that of attempting the calculation of the relative distance of two moving bodies without any data relating to one of them. In this case the mortgages recorded are the fleeing hare, and the mortgages satisfied are the pursuing hound. The existing mortgage indebtedness is the distance between them, and it cannot be estimated from the speed of either alone. To illustrate: suppose that for ten consecutive years the mortgages recorded amounted to $10,000,000 annually, and the mortgages satisfied to $5,000,000 annually, the average term being the same for each year. A calculation based on the returns for the first year would give precisely the same total of mortgage indebtedness as one made on the returns for the last year, although the amount had actually increased $45,000,000. If the conditions were reversed, and the satisfactions were annually $5,000,000 in excess of the mortgages recorded, the calculations for the first and last years would again have precisely the same result, although the volume of mortgages had in fact decreased $45,000,000.

Still, the calculation is not without value, for it is evident that the amount thus ascertained is a reliable maximum or a reliable minimum according as the volume of debt has increased or decreased through a considerable number of years. The situation and known condition of Illinois are sufficiently like those

of Indiana to justify the conclusion that the volume of mortgages has been increasing for twenty years or more in the one as well as the other, and this inference is confirmed by a comparison of the records for the first and the last of the years examined. The total number of real-estate mortgages recorded increased from 44,290 in 1870 to 63,660 in 1887, and the amounts for the same years increased from $75,309,898 to $99,795,684. While it is possible that satisfactions might keep pace in this increase with the mortgages recorded, the contingency is so remote and every iota of evidence is so clearly against it that it must be admitted that the volume of mortgages is increasing and that the estimate is a minimum. The total amount of real-estate mortgages on Illinois property in 1887, as thus computed by the statistician, was $381,322,339, and the annual interest charge was $12,702,542. The assessed value of the real estate in 1880 was $575,441,053. The great excess in proportion of mortgage debt to land value here shown, as compared with Michigan and Indiana, is due to the different rates of assessment used in the three states. According to the census of 1880, property in Illinois is assessed on the average at 25.44 per cent of its true value; in Michigan at 37.79 per cent; and in Indiana at 48.55 per cent. Our ascertained minimums of mortgage debt therefore stand relatively as follows: Illinois, $381,322,339 of debt on $2,262,000,000 of realty; Michigan, $129,229,553 of debt on $1,143,000,000 of realty; and Indiana, $106,855,884 increase of debt in fourteen years on $1,109,000,000 of realty. The annual payment of interest by the three states on this certainly known amount of debt is the enormous sum of $29,634,393.

With this state of facts demonstrated to exist in three states that are rich in natural products, fertile of soil, and well-conditioned for commerce, it will probably be conceded that the mortgage indebtedness of the Western states is a matter worthy the attention of economists and statesmen, as well as of the people of those states. Whatever may be thought of its effects, it is a fact — mountainous and immovable. And more, the probabilities that loom far above the figures here presented make it very questionable whether the "alarmists" who have discussed the

subject have in fact materially exaggerated the existing condition.

The most serious effects of a state of general indebtedness are two: first, its aggravating force in times of financial depression; second, its constant drain on the production of the commonwealth. The first is well illustrated by what has occurred in the states mentioned in the past fifteen years. For seven or eight years after the Civil War "times were good." Money was plenty, business of all kinds was prosperous, and a general spirit of adventure in business enterprises had grown up. Then came a financial depression. Its causes, for present purposes, are immaterial. History assures us that such depressions recur at intervals, from various causes, and we must of necessity treat them as conditions that may exist again at almost any time. Money became scarce. Interest was not easily met. As a rule, in the effort to keep up the interest on secured debts men pushed off the payment of unsecured debts, and so every class in the community partook of the injury, while the ready money in the country was constantly drained away from it by the payment of interest on foreign loans. In a very short time the era of bankruptcy and general foreclosure was reached. The extensive paying power of money in a community where credit is common is well understood. A pays B $100; B, with the same money, pays C; C pays D, and so on until $1000 of debt may be extinguished by the one sum. In the absence of the $100 this satisfactory method of transfer was reversed. D sued C; C sued B; B sued A; and so instead of satisfaction of debts there arose litigation, attorney's fees, court costs and forced sales of property. This was especially serious as to mortgaged property; for universally, by the terms of mortgages, on default of interest the whole debt became due and foreclosure might be had at once. Hence the amount of debt immediately payable was enormously increased at the very time when payment was most difficult, and the natural stringency of the depression was multiplied over and over again.

But this was not the worst effect. On account of sales on foreclosure, sales on execution, and the voluntary efforts to sell

land in order to obtain money, the market value of real estate was soon depressed much below its true value, and remained so for about ten years. One or two instances will show the nature of this calamity. A piece of property for which the owner had refused $25,000 was mortgaged in 1876 for $6,000, in order to raise money to meet pressing claims. In 1879, the owner being driven to the wall, the mortgage was foreclosed and the property bought in by the mortgagee for $6,826, the amount due with accrued interest, attorney's fees and costs. In 1887 it was sold for $10,500, and the purchaser has since refused $12,000. A piece of property appraised by three sworn appraisers at $22,500 was mortgaged for $7,500. In 1878 the mortgage was foreclosed and the property bought in by the mortgagee for $4,500. Under the remainder of the judgment ($3,793) all other property of the owner was levied on and sold. The mortgaged property has since been sold for $12,000. These cases are mentioned because they came under my personal observation, but they were not unusual instances. They are fair samples of what occurred in the majority of foreclosures in this state. It should be added that the personal judgments taken on foreclosure were usually against several persons, as each person who bought mortgaged property commonly assumed the mortgage debt. It is also to be noted that all real estate, whether mortgaged or not, felt the depression in market value. For example, I have in mind a block of unincumbered vacant lots which in 1873 were selling at $3,200 each. In 1879 they sold very slowly at $500 each. At present they are selling readily at $1,500 each.

It is very evident from these facts that mortgage debt, in times of financial depression, has a power of destroying value largely in excess of its own volume. To illustrate: in the second case mentioned the owner of the property had a fair margin of at least $4,000 above the mortgage debt, under normal conditions; under foreclosure and sale he not only lost this but also, by owning the property, suffered further positive injury to the amount of $3,793. I believe that the opinions of intelligent observers will bear me out in the statement that,

under such financial conditions as existed ten years ago, the value-destroying power of mortgage debt is at least equal to twice its volume, and this power must be kept in mind if the significance of mortgage debt is to be understood. On the mortgaged farms of Michigan the mortgage debt is reported to be 46.8 per cent of the assessed value. Assuming for the purpose of illustration that the assessed value is the true value, my proposition is that if these mortgages were foreclosed in a time of general financial depression the entire value of the farms would be consumed in satisfying the mortgages. Further than this, there would result a general depreciation of value in realty that would cause a like loss on all unincumbered property sold while the depression continued.

Of course this loss of value is relative to the owners and not absolute. The subsequent owners have the advantage of the gradual return of the market value of the realty to its normal value. There can be no loss to the mortgagee unless he sells while the depression continues. In some cases foreign loan companies have done this and, mistaking the nature of their loss, have complained bitterly of the wild speculative spirit that had so greatly overestimated the value of the realty pledged to them. At the present time, property having regained something like its normal value, such losses have been compensated by corresponding gains, so that no foreign company, so far as I can learn, has lost anything, and some have realized handsome profits. The Connecticut Mutual Life Insurance Company, in its report of January 1, 1888, to the insurance commissioner of Connecticut, states its net gains on sales of real estate taken in foreclosure to that date at $752,175.17. This profit was chiefly on Chicago property; and I will venture the prediction that this company will realize at least an equal profit on the realty now owned by it in Indiana and Illinois.

It is plain, both from the facts stated above and from reason, that no just appreciation of the condition of owners of farm property can be gained from statistics of farm mortgages alone. The market value of farms is necessarily affected by fluctuations in the value of neighboring city and town property, and *vice*

versa. The effect of throwing on the market large quantities of realty of any kind is to decrease the market value of realty of all kinds. There can be nc large depreciation of value in farm property without a corresponding decrease in the value of city and town property, and no large depreciation of the value of city and town property without a corresponding decrease in value of farms. Even if the contrary were possible in theory, it could not be in fact; for the same causes that glut the market with realty of one kind will at the same time glut it with realty of the other, and so the two will increase or decrease together. Every cause that tends to create, continue or increase financial depression is a necessary factor in the economic consideration of general mortgage indebtedness; and as to any particular portion of such indebtedness no cause is more important than the remaining portions.

The second noteworthy evil is the drain of money from the mortgaged territory by the payment of interest. In the three states mentioned, as we have seen, there is annually paid at least $29,634,393 of interest on real-estate mortgages. How much more is actually paid can only be conjectured. There is no way of determining what proportion of this goes outside the states paying it. The Illinois bureau attempted to ascertain what amount of foreign mortgages were recorded in 1887, but reported that it was unable to do so on account of the large amount of foreign loans made in the names of residents, for some real or fancied business advantage. The proportion shown of record was eleven per cent of the total, but it was declared that "how much should be added to this amount" must, from the nature of the case, "be a matter of individual opinion." It is scarcely worth while to speculate on the question, but it would seem clear from the relative wealth of the two states that the percentage in Indiana must be greater than in Illinois. There is another class of statistical information, however, from which some conception may be gained of the tribute paid by the Western states through interest on mortgages and rentals of property taken in foreclosure. The following table, taken from the report of the insurance commissioner of Connecticut for

1888, shows the official statements of five life insurance companies as to their annual income from interest on mortgage loans, and as to the value of real estate now owned by them in Indiana and Illinois.

TABLE V.

	Annual interest on mortgage loans.	Realty in Indiana.	Realty in Illinois.
Ætna	$982,637	$123,509	$161,801
Conn. Mutual	1,829,538	2,107,334	2,247,189
Phœnix Mutual	440,157	509,487	312,428
Traveler's	248,280	626,476	228,083
Mass. Mutual	158,695	59,198	191,748

As to a number of companies the details are not given; but the total annual interest received on mortgage loans by twenty-seven American companies reported as doing business in Connecticut in 1887 was $12,832,546. Of course not all of this comes from the West, and on the other hand these companies represent only a small portion of the foreign capital loaned on Western real estate. The rentals received by these same companies in 1887 amounted to $1,728,809. Their total income was $123,118,215, and their total expenditure (including losses) was $88,839,354. The net profits were $34,278,851. It will be remarked that the profits of these companies are not due to mortgages alone. I mention them as prefatory to the statement that the payment of interest on mortgages is in fact but a small portion of the annual drain of money from the Western states through the usufructuary power of capital, and that the payments of insurance premiums in excess of the returns in losses paid is a much greater sum. But the point where insurance enters directly into the consideration of mortgage indebtedness is the universal provision of mortgages for the insurance of the mortgaged property in favor of the mortgagee, with a stipulation that on failure to keep up insurance the mortgagee may do so and add the premiums to the debt. Possibly this insurance money is well spent, but practically it would not be spent at all, in many instances, but for the mortgage. In those cases it

is just as much an incident of the mortgage as the interest is, and amounts to so much additional interest.

Other features of the steady drain of profits from the Western states are equally striking. In the estimates above given railroads have been omitted entirely. It is notorious that no railroad in Indiana is actually owned by Indiana men, although in two or three instances they control the stock. The total mortgage indebtedness of all the roads will cover their total value, and the net profits, with the exception of not over $50,000 per annum, go to non-resident capitalists in the shape of interest and, in a small proportion, dividends. The assessed value of the railroad property in Indiana in 1888 was $64,211,717 and the actual value is about twice that sum. The yearly payment of interest computed on this basis (the average rate of interest on railroad bonds being six per cent) would be about $7,500,000. By the late statistical report of the Interstate Commerce Commission, Indiana has 3.82 per cent of the railroad mileage of the United States, and the total annual interest payment on bonds of United States railroads is $168,821,401. Computed on this basis the annual interest payment from Indiana roads is $6,499,000, and this is a safe minimum, for the Indiana mileage is beyond doubt as heavily mortgaged as the average. The nominal amounts of mortgage and interest charge are enormously in excess of the figures here presented, but as they cover the lines in their extent through other states they afford no basis for computation as to Indiana.

From the sources mentioned and from the interest payment on public debt, chattel mortgage debt and unsecured debt, it appears that Indiana must make to non-resident capitalists an annual payment greater than the entire tax levy of the state (between twelve and thirteen millions). It is difficult to portray adequately the evil of this drain on production. Clearly, there can be no advance in wealth from production unless enough products are sold outside the state to cover this drainage, in excess of everything bought in the state from outside. Clearly, too, where the balance of trade is not thus favorable, the state is retrograding in real wealth so far as production is concerned. The wealth

brought in by immigration and the increased value of lands from increased population more than counterbalance the loss in apparent wealth, but the steady increase in mortgages and non-resident ownership warns us that the residents are moving towards the condition of tenants to absentee landlords. As an axiomatic proposition, any condition of affairs, however produced, that without compensation in value causes the transfer of the gains of one state or region to another, whether under the same government or not, must necessarily injure the tributary state and, if persisted in, bring it to ruin. Such a condition tends constantly to create scarcity of money and produce financial depression. In times of general financial depression it invariably causes the tributary state to suffer much more than it would if its natural powers of recuperation were not thus pledged and forfeited. An example may be seen in Ireland, from which, originally by taxation and of recent years by absentee landlordism, the profits of labor have been continuously drawn away to be expended in other countries. Its wretched condition has excited the sympathy of the civilized world. The causes of its misfortunes are but too apparent.

But, as it is always to the interest of those who profit by any economic condition to endeavor to reconcile those who suffer by it, we are informed that the general state of indebtedness in the West is a blessing. To whom? Certainly not to the individual debtor. There are comparatively few uses to which borrowed money may be put that will preserve the principal intact and yield a profit greater than the interest, and of those that do exist the greater portion must be classed as lucky speculations. If this were not true, the men who have capital would themselves employ it in such investments as would yield these greater returns. There are of course exceptions, but as a rule it is absurd to expect men unused to handling capital to employ it to greater advantage than those whose business has long been to manage it. But even if there were such extraordinary sagacity in the borrowing classes, the truth is that but a small portion of the borrowed money goes into those substantial betterments or judicious enterprises that are pictured as the full

justification for extensive borrowing. As a rule the money goes, like any other money placed in the hands of men not accustomed to its use, in profitless extravagance or unfortunate speculation. This is better understood by the Western people than it was formerly, but the information has been obtained by sore experience. No man who has "gone through the mill" can be convinced that mortgage debt was a good thing for him.

As to the community, the disadvantage of general indebtedness ought to be equally apparent from the facts stated above. Suppose that all the surplus capital were taken out of Connecticut or Massachusetts and the indebtedness of the state were increased to the extent of two or three hundred millions, would the state be benefited? Would any amount of gravel roads or tiling[1] compensate for the change? The economists who hold to the affirmative may succeed in deluding themselves, but they cannot longer delude the people of the West. There are two cheering signs in this region. First, the mortgages of the present are mostly for the refunding of old debt. Second, there is a wonderful growth of building associations, by which the people are trained to accumulate capital gradually and expend it intelligently. Thrift will stay the tide even if it cannot turn it. In Indiana, although the mortgage debt has grown more than forty-six millions in seven years, the annual increase has declined more than one-half from 1882 to 1888. Possibly the turning point may be reached even under present conditions, and a decrease of mortgage debt may begin.

In conclusion, however, it should be said that the facts stated above are merely manifestations or natural results of a well-known truth: In some way, the capital of the United States has been aggregated and is still being aggregated in certain sections, and by its usufructuary power is drawing to the same sections the profits of labor of the other sections. If this be the result of national legislation, the tributary states may blame themselves for its existence. The present condition cannot be explained by the aphorism that "wealth is drawn to commercial centres," or on the theory that the richer parts of the country

[1] [See POLITICAL SCIENCE QUARTERLY, IV, 3, 445 *et seq.*]

are such because they are the older. We of the old Northwest Territory have completed a century under organized free government — a century which has always been believed to be one of prosperity in agriculture and commerce. It is not possible that the conditions now existing are the results of natural causes, and if it were, the outlook for the future would not be pleasing. Our soil has been generous, but it shows the loss of its virgin fertility. Our forest product has been enormous, but it cannot be duplicated from the same sources. If nature be at fault, what should we expect of our second century? But we are not forced to so hopeless a conclusion. Reason affirms that the impediments which have hindered our advance are artificial. The causes that produced our present condition were created by men and may be removed by men.

J. P. Dunn, Jr.